

Fairy tales or nightmares: A snapshot of Beazley's A&E claims study

"Fairy tales can come true, it can happen to you ..." We're all familiar with the famous Frank Sinatra refrain. Well, in the construction world fairy tales often turn into claims quagmires, and yes, they can happen to you. As an insurer of architects and engineers of all sizes, including over half of the top 50 ENR design firms, Beazley sees thousands of claims that give us an industry-wide view of the claims environment. We consider it a key component of our underwriting and analysis of risk. The following is a snapshot of what our most recent claims study presented.

Territory

We are seeing more claims around the world. While the US still leads the way in claims frequency and frequency of severity, Australia is also showing increased frequency and substantial severity. In fact, Australia and Canada experience the highest average incurred losses per claim.

Project Type

Among large firms (>\$100 million in fees), infrastructure projects pose the greatest frequency and severity exposure, with water/wastewater systems, roadways and bridges presenting the greatest risks in that class. Among smaller firms we see a very different picture. Residential projects dominate virtually every metric when evaluating frequency and severity of claims. And all the years of talk about how risky condominium projects are ...? It's true. By far, condominiums represent the riskiest project sub-type within residential. The losses paid out on condo claims are **nine** times greater than the exposure base as measured by fees.

Area of Practice

As far as areas of practice are concerned, we again see some differences between large firms and smaller firms. Among large firms, claims against civil engineers dominate both in terms of frequency and severity. This ties into the prevalence of infrastructure projects identified above since civil engineers have heavy involvement in those projects.

Among smaller firms, we see architects as the most frequent recipient of claims relative to exposure which is not surprising based on its typical role as the prime and the vicarious liability exposure that comes with that. With regard to severity of loss, however, structural engineers appear to present the greatest challenge, with losses nearly three times the exposure base as measured by fees. This explains why the insurance industry, generally speaking, applies a higher rate against revenues for structural engineers than it does other disciplines.

Other factors that became apparent from the claims study is that claims can hit firms of any size at any time. As far as firm size is concerned, among the highest in frequency of claims when compared to premium are firms between \$250,000 and \$1 million in fees. Claims activity is clearly not just the purview of larger firms working on larger projects. Furthermore, over 40% of all claims were made more than three years after project completion, making long term planning for document retention key to mounting a vigorous defense.